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Elston Insights

21st June 2024

The rise of the conductors: silver and copper surge

- Gold remains diversifier by has rallied hard
- Silver is relatively "cheap" and has room to run
- Copper demand underpinned by China and net zero

Gold is a great diversifier but has rallied hard

Gold is an age-old portfolio diversifier: its lack of correlation to equities or bonds, and its "insurance" qualities in times of market stress, means that it creates a genuine diversification effect within a multi-asset portfolio. For this reason, we see gold as a core holding within a Liquid Real Assets or diversified Alternatives strategy.

Emerging Market Central Bank buying this year (predominantly China) over concerns around the oversupply of US Treasuries has driven the Gold price to multi-year highs. For those that actioned my Valentine's Day suggestion of buying your sweetheart some units in SGLN (a low cost Gold ETC), would have seen a return of +16%, and potentially secured a second date.

But buying more Gold at these levels seems pricey, so what other potential diversifiers are there?

Silver also shines, with an industrial edge

Looking at Gold's permanent also-ran, silver, we see three trends. Firstly, the Silver is up more than Gold this year. Silver is up +24.89% this year, whilst Gold is +12.77% both in USD terms.

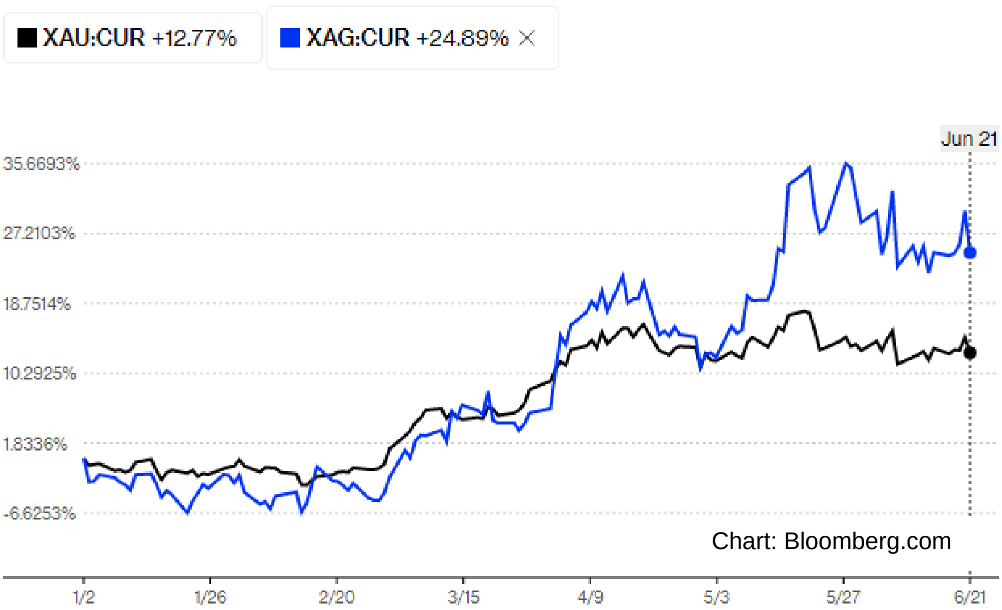
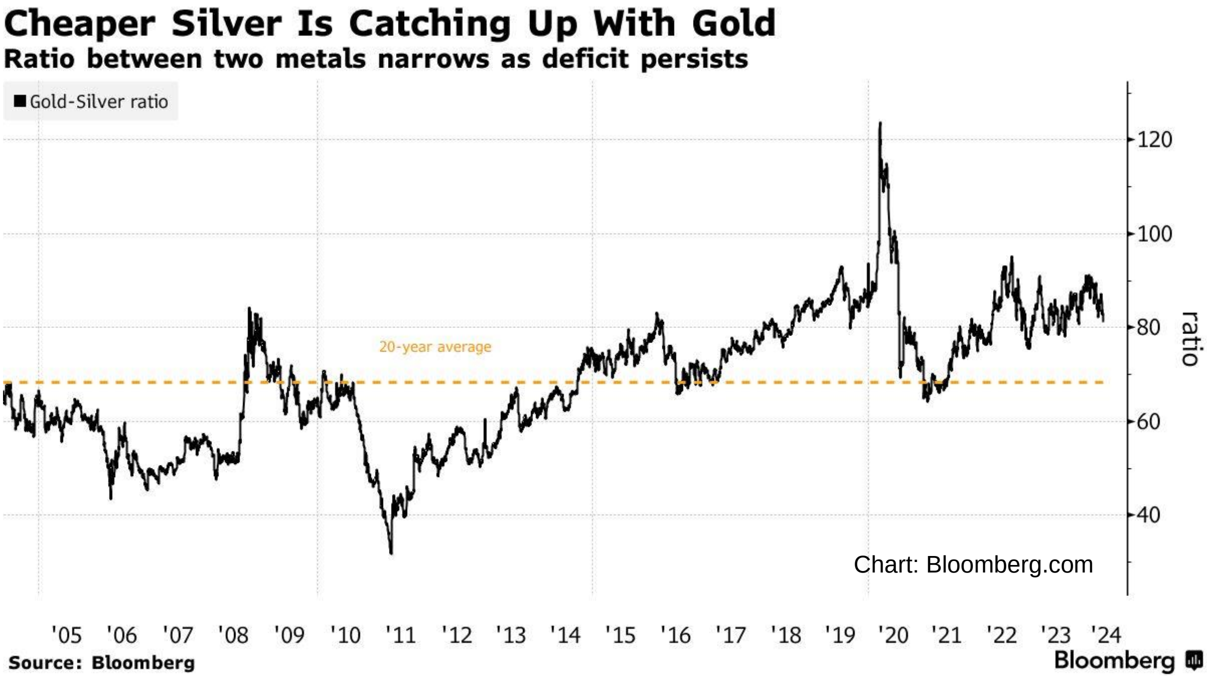


Chart: Bloomberg.com

Secondly the silver price, relative to Gold, is still cheap, meaning there is still plenty of room to run for a continued catch-up.

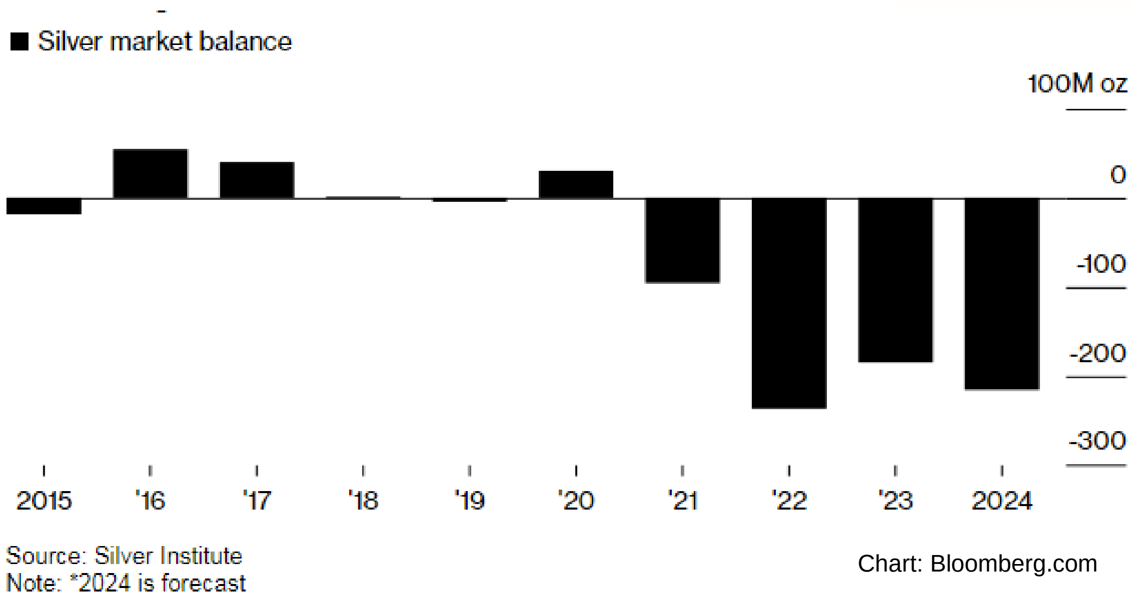
How is "cheap" measured? The relative silver price is measured by the "Gold-Silver Ratio" which is how many ounces of silver it takes to buy one ounce of gold (like an exchange rate). The higher the ratio, the "cheaper" silver is. It currently takes 80 ounces of silver to buy 1 ounce of gold, which is far "cheaper" than the 20 year average of 68[1].



For a marginal investment into precious metals, silver looks relatively more attractive than Gold at these levels.

Finally, there is structural demand for Silver, as a reliable conductor, in part of the electrification drive that can help deliver the Path to Net Zero. Silver is a key raw material in electronics, solar panels and charging stations. For this reason the silver market has been in deficit, where demand outstrips supply, for the fourth year in a row, with a shortage of 215.3m oz.

[1] https://www.bloomberg.com/news/articles/2024-05-16/hot-commodity-silver-sets-pace-as-demand-and-deficit-drive-rally



Rather than relying on newly mined silver, stockpiles are being run down instead. Silver stockpiles being held in London vaults totalled 818.9m oz, in Apr-24, compared to 846.6m oz in Apr-23, 1081.8m oz in Apr-22 and 1,153.2m oz in Apr-21[2]. These stockpiles are monitored by the London Bullion Market Association to underpin the trading of the physical commodity[3].

Copper the reliable conductor

The transition to net zero, the move to renewables and electrification is also underpinning the case for copper market and the surge in the copper price. An offshore wind turbine requires 8 tons of copper per megawatt, an electric car requires 50kg of copper, double that of a petrol/diesel car.

Copper has risen to double the average price of 2000 to 2020 on increased demand. The historical peak was $8,000/ton in 2008 driven by Chinese infrastructure demand ($14,000/ton in today's money)[4].

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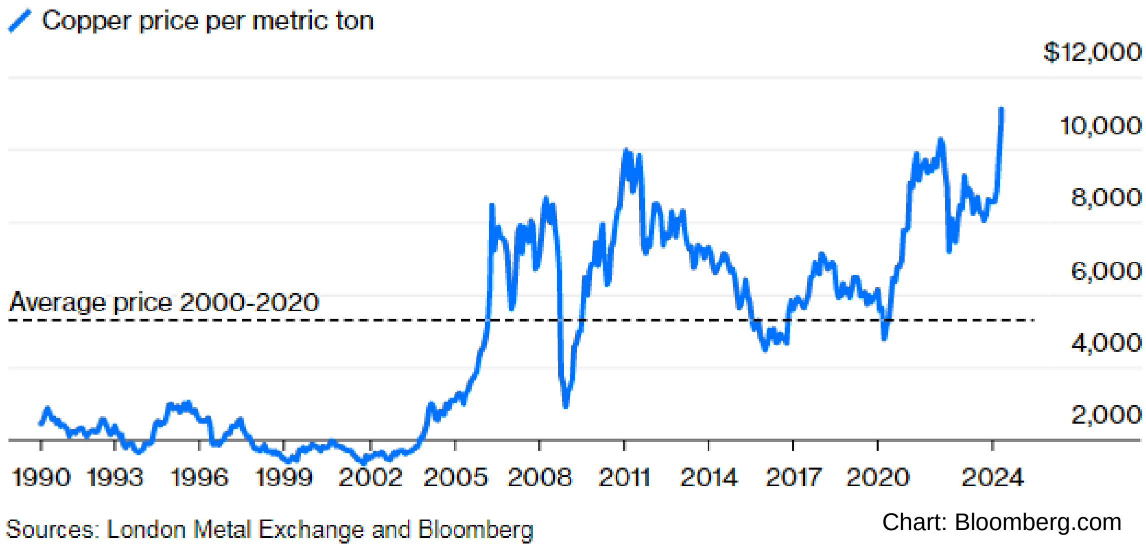
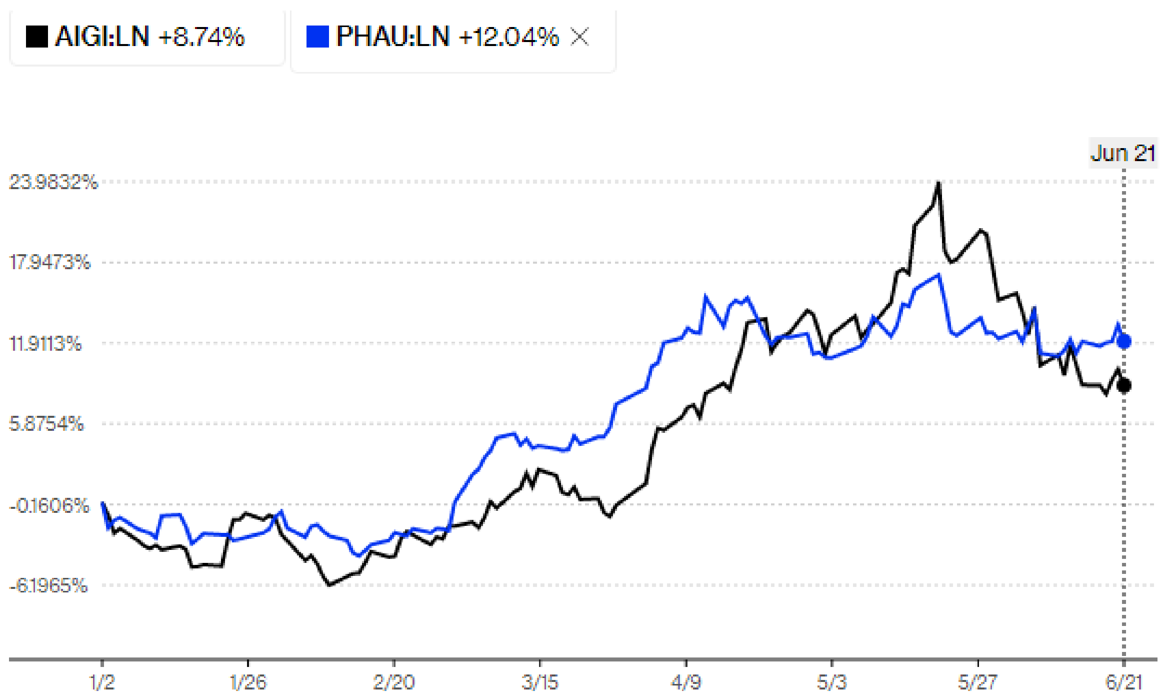
[2] https://www.bloomberg.com/news/articles/2024-05-16/hot-commodity-silver-sets-pace-as-demand-and-deficit-drive-rally
[3] https://www.lbma.org.uk/prices-and-data/london-vault-data
[4] https://www.bloomberg.com/opinion/articles/2024-05-20/copper-bullish-exuberance-obscures-market-realities



China remains the largest part of demand representing half of the world's copper consumption so price action is closely linked to China's economic indicators.

Copper makes up approximately one third of the Bloomberg Industrial Metals index with the remaining holdings being Aluminium, Zinc, Nickel and Lead.

Year to date, an industrial metals ETC (AIGI:LN) has returned +8.74% compared to a gold ETC (PHAU:LN) +12.04%. Industrial Metals also forms part of our Liquid Real Assets universe.



Bottom line

Gold remains a useful and powerful diversifier, but other uncorrelated assets where the combination of industrial demand (silver and copper), and lower relative valuations (silver) can help broaden the mix of metals in a portfolio.

Henry Cobbe, CFA

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Further Reading

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